

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Forest Township	County Missaukee
Fiscal Year End March 31, 2007	Opinion Date June 19, 2007	Date Audit Report Submitted to State September 6, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


5
17
2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789		
Street Address 134 West Harris Street		City Cadillac	State MI	Zip 49601
Authorizing CPA Signature 		Printed Name Steven C. Arends, C.P.A.		License Number 1101013211

FOREST TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

MARCH 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MARCH 31, 2007

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FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MARCH 31, 2007

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June 19, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Forest Township
Missaukee County
Lake City, Michigan

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Forest Township, Missaukee County, Lake City, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Forest Township, Missaukee County, Lake City, Michigan, as of March 31, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on pages 18 and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Forest Township, Missaukee County, Lake City, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FOREST TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Forest Township, a general law township located in Missaukee County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Forest Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$129,509. Of this amount, \$12,141 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$22,192 a decrease of \$134,681 in comparison with the prior year. About 54.7% is available for spending at the Township's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. Also, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities)

FOREST TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$129,509 at March 31, 2007, meaning the Township’s assets were greater than its liabilities by this amount.

FOREST TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Forest Township
Net Assets as of March 31, 2007

	Governmental Activities
Assets	
Current Assets	\$ 76,486
Non Current Assts	
Capital Assets	137,052
Less: Accumulated Depreciation	<u>(29,735)</u>
Total Non Current Assets	<u>107,317</u>
Total Assets	<u><u>\$ 183,803</u></u>
Liabilities	
Current Liabilities	<u>\$ 54,294</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	107,317
Restricted for Specific Purposes	10,051
Unrestricted	<u>12,141</u>
Total Net Assets	<u>129,509</u>
Total Liabilities and Net Assets	<u><u>\$ 183,803</u></u>

The most significant portion of the Township's Net Assets is Capital Assets. The Township has \$107,317 in Net Capital Assets.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township decreased by \$46,984 or 26.6% in this fiscal year, which is an indicator that the Township experienced negative financial growth during the year. As a result, the Township ended the fiscal year in worse condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

FOREST TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Forest Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2007

	<u>Governmental Activities</u>
Revenues	
Program Revenues	
Charges for Services	\$ 3,052
Operating Grants and Contributions	8,835
General Revenues	
Property Taxes	80,406
State Shared Revenue	78,480
Investment Earnings	328
Other	<u>1,618</u>
Total Revenues	<u>\$ 172,719</u>
Expenses	
Legislative	\$ 15,091
General Government	95,514
Public Safety	14,814
Public Works	82,724
Parks and Recreation	3,560
Other Functions	<u>8,000</u>
Total Expenses	<u>\$ 219,703</u>
Changes in Net Assets	(46,984)
NET ASSETS - Beginning of Year	<u>176,493</u>
NET ASSETS - End of Year	<u><u>\$ 129,509</u></u>

Governmental Activities

The most significant part of the revenue for all governmental activities of Forest Township comes from property taxes. The Township levied a millage for road improvements, in addition to the operating millage, this fiscal year. The Township levied 1.5 mills for operating purposes, and .9886 mills for road improvement. State shared revenues are also a significant portion of the revenues for Forest Township. State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. In 2007, the amount of state shared revenue received by the

FOREST TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Township's governmental activities expenses are dominated by general government expenses that total 44% of total expenses. The Township spent \$95,514 in fiscal year 2007 on general government expenses. Public works represented the next largest expense at \$82,724 which represents 38%. Expenses for salaries, contracted services, and pension contribution, represent a large portion of the general government expenses. Depreciation expense added another \$4,210.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Activities The focus of Forest Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Forest Township's governmental funds reported combined ending fund balances of \$22,192. Approximately 55% of this total amount \$12,141 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road maintenance must be used for expenditures that relate to road improvements.

General Fund – The General Fund decreased its fund balance by \$120,524 which brings the fund balance to \$2,078. Of the General Fund's fund balance, all of it is unreserved. Two General Fund functions ended the year with expenditures over budgeted amounts. This differential was funded by greater than anticipated revenues and available fund balance.

Road Fund – The Road Fund increased its fund balance by \$443 which brings the fund balance to \$3,327. This balance is reserved and must be used for road maintenance.

The Township levied a road millage on the 2006 tax roll. This resulted in \$26,326 in tax related revenues during the current fiscal year.

Improvement Revolving Fund – The Improvement Revolving Fund decreased its fund balance by \$14,640 which brings the fund balance to \$6,724. The balance is reserved and must be used for township improvements.

Budget Stabilization Fund – The Budget Stabilization Fund's fund balance increased by \$40 which brings the fund balance to \$10,063. The entire fund balance of this fund is reserved.

FOREST TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Proprietary Fund The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2007 amounted to \$107,317 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was \$87,697.

Capital assets summarized below include any items purchased with a cost greater than \$3,000 individually (for purchases after March 31, 2004) and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Forest Township
Capital Assets as of March 31, 2007

	Governmental Activities
Land	\$ 10,500
Buildings	60,375
Land and Building Improvements	47,579
Office Equipment	18,598
	<hr/> 137,052
Less Accumulated Depreciation	(29,735)
Net Capital Assets	<hr/> \$ 107,317 <hr/>

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means possible further reductions in state-shared revenues.

This factor was considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Forest Township at 4301 W. Sanborn Road, Lake City, MI 49601.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	\$ 56,082
Due from Other Governments	12,085
Taxes Receivable	<u>8,319</u>
Total Current Assets	<u>\$ 76,486</u>
<u>CAPITAL ASSETS</u>	
Land	\$ 10,500
Buildings	60,375
Land and Building Improvements	47,579
Office Equipment	<u>18,598</u>
	\$ 137,052
Less Accumulated Depreciation	<u>29,735</u>
Net Capital Assets	<u>\$ 107,317</u>
 TOTAL ASSETS	 <u><u>\$ 183,803</u></u>
 <u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Due to Other Governments	\$ 54,256
Payroll Deductions Payable	<u>38</u>
Total Liabilities	<u>\$ 54,294</u>
 <u>EQUITY</u>	
Net Assets:	
Invested in Capital Assets	\$ 107,317
Restricted for Road Improvements	3,327
Restricted for Township Improvements	6,724
Unrestricted	<u>12,141</u>
TOTAL NET ASSETS	<u><u>\$ 129,509</u></u>

The accompanying notes are an integral part of the financial statements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

					<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>	
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			TOTAL GOVERNMENTAL ACTIVITIES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>						
Legislative	\$ 15,091	\$ 0	\$ 0	\$ 0	\$ (15,091)	
General Government	95,514	3,052	8,835	0	(83,627)	
Public Safety	14,814	0	0	0	(14,814)	
Public Works	82,724	0	0	0	(82,724)	
Parks and Recreation	3,560	0	0	0	(3,560)	
Other Functions	8,000	0	0	0	(8,000)	
Total	\$ 219,703	\$ 3,052	\$ 8,835	\$ 0	\$ (207,816)	

GENERAL REVENUES

Taxes	\$ 80,406
State Shared Revenue	78,480
Investment Earnings	328
Other	1,618
Total General Revenues	<u>\$ 160,832</u>
Change in Net Assets	\$ (46,984)
<u>NET ASSETS</u> - Beginning of Year	<u>176,493</u>
<u>NET ASSETS</u> - End of Year	<u>\$ 129,509</u>

The accompanying notes are an integral part of the financial statements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2007

	GENERAL FUND	ROAD FUND	IMPROVEMENT REVOLVING FUND	BUDGET STABILIZATION FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 39,295	\$ 0	\$ 6,724	\$ 10,063	\$ 56,082
Due from Other Governments	12,085	0	0	0	12,085
Taxes Receivable	4,992	3,327	0	0	8,319
 TOTAL ASSETS	 \$ 56,372	 \$ 3,327	 \$ 6,724	 \$ 10,063	 \$ 76,486
 <u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Due to Other Governments	\$ 54,256	\$ 0	\$ 0	\$ 0	\$ 54,256
Payroll Deductions Payable	38	0	0	0	38
 TOTAL LIABILITIES	 \$ 54,294	 \$ 0	 \$ 0	 \$ 0	 \$ 54,294
 <u>FUND BALANCE</u>					
Reserved for:					
Road Improvements	\$ 0	\$ 3,327	\$ 0	\$ 0	\$ 3,327
Township Improvements	0	0	6,724	0	6,724
Unreserved					
Undesignated	2,078	0	0	10,063	12,141
Total Fund Balance	\$ 2,078	\$ 3,327	\$ 6,724	\$ 10,063	\$ 22,192
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 56,372	 \$ 3,327	 \$ 6,724	 \$ 10,063	 \$ 76,486

The accompanying notes are an integral part of the financial statements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balance for Governmental Funds	\$	22,192
-------------------------------------------	----	--------

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$	10,500	
Buildings		60,375	
Land and Building Improvements		47,579	
Office Equipment		18,598	
Accumulated Depreciation		<u>(29,735)</u>	<u>107,317</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>129,509</u></u>
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The accompanying notes are an integral part of the financial statements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

	GENERAL FUND	ROAD FUND	IMPROVEMENT REVOLVING FUND	BUDGET STABILIZATION FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 54,080	\$ 26,326	\$ 0	\$ 0	\$ 80,406
State Grants	87,315	0	0	0	87,315
Charges for Services	3,052	0	0	0	3,052
Interest and Rents	227	0	61	40	328
Other Revenues	1,618	0	0	0	1,618
Total Revenues	<u>\$ 146,292</u>	<u>\$ 26,326</u>	<u>\$ 61</u>	<u>\$ 40</u>	<u>\$ 172,719</u>
<u>EXPENDITURES</u>					
Legislative	\$ 15,091	\$ 0	\$ 0	\$ 0	\$ 15,091
General Government	168,510	0	14,701	0	183,211
Public Safety	14,814	0	0	0	14,814
Public Works	56,841	25,883	0	0	82,724
Parks and Recreation	3,560	0	0	0	3,560
Other Functions	8,000	0	0	0	8,000
Total Expenditures	<u>\$ 266,816</u>	<u>\$ 25,883</u>	<u>\$ 14,701</u>	<u>\$ 0</u>	<u>\$ 307,400</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (120,524)	\$ 443	\$ (14,640)	\$ 40	\$(134,681)
<u>FUND BALANCE -</u> Beginning of Year	<u>122,602</u>	<u>2,884</u>	<u>21,364</u>	<u>10,023</u>	<u>156,873</u>
<u>FUND BALANCE -</u> End of Year	<u>\$ 2,078</u>	<u>\$ 3,327</u>	<u>\$ 6,724</u>	<u>\$ 10,063</u>	<u>\$ 22,192</u>

The accompanying notes are an integral part of the financial statements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2007

Net Change in Fund Balance - Total Governmental Funds	(134,681)
-------------------------------------------------------	-----------

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	\$ (4,210)	
Capital Outlay	91,907	87,697

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (46,984)</u>
-------------------------------------------------	--------------------

The accompanying notes are an integral part of the financial statements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
MARCH 31, 2007

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 0
	<u><u> </u></u>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 0
	<u><u> </u></u>

The accompanying notes are an integral part of the financial statements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Forest Township is a general law township located in Missaukee County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Forest Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* accounts for revenue sources that are legally restricted to expenditures for road maintenance.

The *Improvement Revolving Fund* accounts for revenue sources that are designated for expenditures for township improvements.

The *Budget Stabilization Fund* accounts for monies set aside to be used in the future to maintain a balanced budget in times of decreasing revenues.

Additionally Forest Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

- (I) The Investment Policy adopted by the Township states that the township is limited to investments authorized by PA 20 of 1943, as amended, and may invest in the following:
- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
 - (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Forest Township Board at the Board's organizational meeting after each regular election of board members.
 - (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not more than 270 days after the date of purchase.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Investment pools through an Interlocal Agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (g) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and two-thirds of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations

The 2006 taxable valuation of the Forest Township totaled \$26,070,870, on which ad valorem taxes levied consisted of 1.5 mills for the Forest Township operating purposes, and .9886 mills for Forest Township road improvements. These levies raised approximately \$39,492 for operating purposes and \$26,326 for road improvements.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. There are no prepaid items this year.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial,

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land and Building Improvements	20
Office Equipment	5-10

Forest Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The Township has no outstanding debt.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 1, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Parks and Recreation	0	3,560
Public Works	42,382	56,841
Road Fund		
Public Works	21,318	25,883
Improvement Revolving Fund		
General Government	0	14,701

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

These overages were funded by greater than anticipated revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The Township's deposits are owned by several of the Township's funds. At year-end, the carrying amount of the Township's deposits was \$56,082 and the bank balance was \$57,027. The entire \$57,027 was covered by Federal depository insurance.

DEPOSITS

The carrying amount of the Township's deposits at year-end are shown below:

Chemical Bank West	
Lake City, Michigan	
Checking	\$ 39,295
Savings and Money Market Accounts	16,787
	<u>\$ 56,082</u>

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	General	Roads	Total
Taxes Receivable	\$ 4,992	\$ 3,327	\$ 8,319
Due from Other Governments	12,085	0	12,085
	<u>\$ 17,077</u>	<u>\$ 3,327</u>	<u>\$ 20,404</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 10,500	\$ 0	\$ 0	\$ 10,500
Capital assets, being depreciated				
Buildings	300	60,075	0	60,375
Land and Building Improvements	18,895	28,684	0	47,579
Office Equipment	15,450	3,148	0	18,598
Total capital assets, being depreciated	34,645	91,907	0	126,552
Less accumulated depreciation for:				
Buildings	300	1,201	0	1,501
Land and Building Improvements	9,775	2,379	0	12,154
Office Equipment	15,450	630	0	16,080
Total accumulated depreciation	25,525	4,210	0	29,735
Total capital assets, being depreciated, net	9,120	87,697	0	96,817
Governmental activities capital assets, net	\$ 19,620	\$ 87,697	\$ 0	\$ 107,317

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	<u>\$ 4,210</u>
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Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2007.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

D. Interfund Receivables, Payables and Transfers

There were no individual fund interfund receivable and payable balances at March 31, 2007.

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no interfund transfers during the fiscal year March 31, 2007.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. In addition, certain portions of unreserved fund balances have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Special Revenue Funds

Road Fund

Reserved for Road Improvements	\$ 3,327	
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Improvement Revolving Fund

Reserved for Township Improvements	<u>6,724</u>	<u>10,051</u>
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TOTAL FUND BALANCE

RESERVES AND DESIGNATIONS		<u><u>\$ 10,051</u></u>
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IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Retirement Plan

Effective July 23, 1996, the Township established a Simplified Employee Pension – Individual Retirement Account (SEP-IRA). The plan was established with Auto Owners Insurance, Lansing, Michigan. The plan covers all employees who meet minimum participation requirements based on annual compensation. To be eligible for plan coverage each employee must be at least 18 years of age.

Contributions to the plan are based on annual compensation and are payable annually. The Township's contribution to the plan is 15% of covered compensation. The Township's cash contribution to the plan for 2006-2007 was \$9,545. Covered compensation for the current year was \$57,278 and the total of all wages including non-covered wages was \$66,078.

The individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which are includible as part of the Township reporting entity.

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2007

	GENERAL FUND			ROAD FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>						
Taxes	\$ 38,384	\$ 40,184	\$ 54,080	\$21,318	\$ 21,318	\$ 26,326
State Grants	68,545	77,380	87,315	0	0	0
Charges for Services	2,970	2,970	3,052	0	0	0
Interest and Rents	704	704	227	0	0	0
Other Revenues	0	0	1,618	0	0	0
Total Revenues	\$ 110,603	\$ 121,238	\$ 146,292	\$21,318	\$ 21,318	\$ 26,326
<u>EXPENDITURES</u>						
Legislative	\$ 17,389	\$ 17,389	\$ 15,091	\$ 0	\$ 0	\$ 0
General Government	187,654	188,654	168,510	0	0	0
Public Safety	18,650	18,650	14,814	0	0	0
Public Works	42,382	42,382	56,841	21,318	21,318	25,883
Parks and Recreation	0	0	3,560	0	0	0
Other Functions	10,800	10,800	8,000	0	0	0
Total Expenditures	\$ 276,875	\$ 277,875	\$ 266,816	\$21,318	\$ 21,318	\$ 25,883
Excess (Deficiency) of Revenues Over Expenditures	\$ (166,272)	\$ (156,637)	\$ (120,524)	\$ 0	\$ 0	\$ 443
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In (Out)						
Improvement Revolving Fund	\$ (2,000)	\$ (2,000)	\$ 0	\$ 0	\$ 0	\$ 0
General Fund	0	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ (2,000)	\$ (2,000)	\$ 0	\$ 0	\$ 0	\$ 0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (168,272)	\$ (158,637)	\$ (120,524)	\$ 0	\$ 0	\$ 443
<u>FUND BALANCE</u> - Beginning of Year	133,209	133,209	122,602	0	0	2,884
<u>FUND BALANCE</u> - End of Year	\$ (35,063)	\$ (25,428)	\$ 2,078	\$ 0	\$ 0	\$ 3,327

IMPROVEMENT REVOLVING FUND			BUDGET STABILIZATION FUND		
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0
0	0	0	0	0	0
81	81	61	30	30	40
0	0	0	0	0	0
<hr/>			<hr/>		
\$ 81	\$ 81	\$ 61	\$ 30	\$ 30	\$ 40
<hr/>			<hr/>		
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	14,701	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<hr/>			<hr/>		
\$ 0	\$ 0	\$ 14,701	\$ 0	\$ 0	\$ 0
<hr/>			<hr/>		
\$ 81	\$ 81	\$ (14,640)	\$ 30	\$ 30	\$ 40
<hr/>			<hr/>		
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2,000	2,000	0	0	0	0
<hr/>			<hr/>		
\$ 2,000	\$ 2,000	\$ 0	\$ 0	\$ 0	\$ 0
<hr/>			<hr/>		
\$ 2,081	\$ 2,081	\$ (14,640)	\$ 30	\$ 30	\$ 40
21,343	21,343	21,364	10,013	10,013	10,023
<hr/>			<hr/>		
\$ 23,424	\$ 23,424	\$ 6,724	\$ 10,043	\$ 10,043	\$ 10,063
<hr/>			<hr/>		

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GENERAL FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 39,295
Due from Other Governments	12,085
Taxes Receivable	<u>4,992</u>
 TOTAL ASSETS	 <u><u>\$ 56,372</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other Governments	\$ 54,256
Payroll Withholdings Payable	<u>38</u>
 TOTAL LIABILITIES	 \$ 54,294

FUND BALANCE

Unreserved	<u>2,078</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 56,372</u></u>

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	BUDGET			ACTUAL
	ORIGINAL	FINAL		
<u>REVENUES</u>				
Taxes	\$ 38,384	\$ 40,184	\$	54,080
State Grants	68,545	77,380		87,315
Charges for Services	2,970	2,970		3,052
Interest and Rents	704	704		227
Other Revenues	0	0		1,618
Total Revenues	\$ 110,603	\$ 121,238	\$	146,292
<u>EXPENDITURES</u>				
Legislative				
Township Board	\$ 17,389	\$ 17,389	\$	15,091
General Government				
Supervisor	13,458	13,458		11,862
Elections	4,000	4,000		7,763
Assessor	31,705	31,705		30,551
Clerk	12,464	12,464		10,594
Board of Review	2,200	2,200		1,152
Treasurer	23,827	24,827		19,395
Building and Grounds	100,000	100,000		9,912
Public Safety				
Liquor Law Enforcement	1,650	1,650		1,650
Fire Protection	17,000	17,000		13,164
Public Works				
Highways, Streets and Bridges	40,182	40,182		55,241
Street Lighting	2,200	2,200		1,600
Parks and Recreation	0	0		3,560
Other Functions				
Insurance and Bonds	5,000	5,000		2,683
Employee Benefits	5,800	5,800		5,317
Capital Outlay	0	0		77,281
Total Expenditures	\$ 276,875	\$ 277,875	\$	266,816

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	BUDGET		
	ORIGINAL	FINAL	ACTUAL
Excess of Revenues Over (Under) Expenditures	\$ (166,272)	\$ (156,637)	\$ (120,524)
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In (Out)			
Improvement Revolving Fund	(2,000)	(2,000)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (168,272)	\$ (158,637)	\$ (120,524)
<u>FUND BALANCE</u> - April 1, 2006	133,209	133,209	122,602
<u>FUND BALANCE</u> - March 31, 2007	\$ (35,063)	\$ (25,428)	\$ 2,078

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

ROAD FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Taxes Receivable	\$ 3,327
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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FUND BALANCE

Reserved for Road Maintenance	3,327
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TOTAL LIABILITIES AND FUND BALANCE	\$ 3,327
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FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

ROAD FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Taxes		
Current Property Taxes	\$ 21,318	\$ 26,161
Industrial Facilities Tax	0	165
Total Revenues	\$ 21,318	\$ 26,326
<u>EXPENDITURES</u>		
Public Works		
Highways, Streets and Bridges		
Other Services and Charges		
Repairs and Maintenance	21,318	25,883
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ 443
<u>FUND BALANCE</u> - April 1, 2006	0	2,884
<u>FUND BALANCE</u> - March 31, 2007	\$ 0	\$ 3,327

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND

BALANCE SHEET

MARCH 31, 2007

ASSETS

Cash

 Money Market Account

\$ 6,724

LIABILITIES AND FUND BALANCE

LIABILITIES

\$ 0

FUND BALANCE

 Reserved for Township Improvements

6,724

TOTAL LIABILITIES AND FUND BALANCE

\$ 6,724

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Interest and Rents		
Interest Earnings	\$ 81	\$ 61
<u>EXPENDITURES</u>		
Building and Grounds		
Supplies		
Operating Supplies	\$ 0	\$ 75
Capital Outlay		
Office Equipment	0	3,148
Building Improvements	0	11,478
Total Expenditures	\$ 0	\$ 14,701
Excess of Revenues Over (Under) Expenditures	\$ 81	\$ (14,640)
<u>OTHER FINANCING SOURCES (USES)</u>		
Operating Transfers In (Out)		
General Fund	2,000	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 2,081	\$ (14,640)
<u>FUND BALANCE</u> - April 1, 2006	21,343	21,364
<u>FUND BALANCE</u> - March 31, 2007	\$ 23,424	\$ 6,724

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

BUDGET STABILIZATION FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash

 Money Market Account

\$ 10,063

LIABILITIES AND FUND BALANCE

LIABILITIES

\$ 0

FUND BALANCE

 Unreserved

10,063

TOTAL LIABILITIES AND FUND BALANCE

\$ 10,063

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

BUDGET STABILIZATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES FUND IN BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Interest and Rents		
Interest Earnings	\$ 30	\$ 40
<u>EXPENDITURES</u>	<u>0</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	\$ 30	\$ 40
<u>FUND BALANCE</u> - April 1, 2006	<u>10,013</u>	<u>10,023</u>
<u>FUND BALANCE</u> - March 31, 2007	<u>\$ 10,043</u>	<u>\$ 10,063</u>

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF 2006 WINTER TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County	\$	107,387	
Township			
Operating		39,245	
Roads		26,161	
School			
Lake City Area Schools		321,187	
Intermediate School			
Wexford-Missaukee		<u>155,468</u>	\$ 649,448

TAXES COLLECTED

County	\$	93,449	
Township			
Operating		34,253	
Roads		22,834	
School			
Lake City Area Schools		287,568	
Intermediate School			
Wexford-Missaukee		<u>135,687</u>	<u>573,791</u>

TAXES RETURNED DELINQUENT

County	\$	13,938	
Township			
Operating		4,992	
Roads		3,327	
School			
Lake City Area Schools		33,619	
Intermediate School			
Wexford-Missaukee		<u>19,781</u>	<u>\$ 75,657</u>

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF 2006 WINTER INDUSTRIAL FACILITIES TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County	\$	674	
Township			
Operating		247	
Roads		165	
School			
Lake City Area Schools			
Local Share		453	
State Share		2,963	
Intermediate School			
Wexford-Missaukee			
Local Share		45	
State Share		933	\$ 5,480

TAXES COLLECTED

County	\$	674	
Township			
Operating		247	
Roads		165	
School			
Lake City Area Schools			
Local Share		453	
State Share		2,963	
Intermediate School			
Wexford-Missaukee			
Local Share		45	
State Share		933	5,480

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF 2006 WINTER INDUSTRIAL FACILITIES TAX ROLL
MARCH 31, 2007

TAXES RETURNED DELINQUENT

County	\$	0	
Township			
Operating		0	
Roads		0	
School			
Lake City Area Schools			
Local Share		0	
State Share		0	
Intermediate School			
Wexford-Missaukee			
Local Share		0	
State Share		0	
		<u>0</u>	<u>\$ 0</u>

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF 2006 SUMMER TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County			
Operations	\$	85,468	
State Education Tax		<u>156,422</u>	\$ 241,890

TAXES COLLECTED

County			
Operations	\$	79,175	
State Education Tax		<u>144,905</u>	<u>224,080</u>

TAXES RETURNED DELINQUENT

County			
Operations	\$	6,293	
State Education Tax		<u>11,517</u>	<u>\$ 17,810</u>

FOREST TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF 2006 SUMMER INDUSTRIAL FACILITIES TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County	\$	540	
State of Michigan			
State Education Tax		<u>1,975</u>	\$ 2,515

TAXES COLLECTED

County	\$	540	
State of Michigan			
State Education Tax		<u>1,975</u>	<u>2,515</u>

TAXES RETURNED DELINQUENT

County	\$	0	
State of Michigan			
State Education Tax		<u>0</u>	<u>\$ 0</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

June 19, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Forest Township
Missaukee County
Lake City, Michigan

As a result of our audit of the financial statements of Forest Township for the year ended March 31, 2007, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the Township.

Budgeting

Pertaining to the Township's compliance with Public Act 621 of 1978, the following is noted:

- (1) Two activities in the General Fund exceeded the budgeted amount.
- (2) The General Fund budget was adopted with expenditures exceeding revenues and available beginning balance, thus creating a deficit ending budgeted fund balance. In the future, all budgets should be adopted with an ending fund balance that is positive or zero.
- (3) The Township's Road Fund and Improvement Revolving Fund had expenditures in excess of budgeted amounts. All budgets should be amended prior to incurring expenditures in excess of budgeted amounts.

General Recordkeeping

The accounting records for the year ended March 31, 2007, were found to be in good order and in compliance with the State's uniform accounting system. We commend the Clerk and Treasurer for a job well done and encourage them to keep up the fine effort.

We would like to thank the Board for its continued confidence in our firm by awarding us the audit assignment of the Township. We would also like to thank the Clerk and Treasurer for their cooperation in helping us fulfill the audit of the Township records.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

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June 19, 2007

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Township Board
Forest Township
Missaukee County
Lake City, Michigan

In planning and performing our audit of the financial statements of Forest Township, Lake City, Michigan as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Forest Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be a significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described in number 1 above (Lack of Segregation of Duties) constitutes a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.